

Webinar: “Financing/Credit Insurance”

October 14, 2021

Coordinator: Welcome and thank you for standing by, all participants will be in a listen-only mode during today's call till the question and answer session. I'd like to inform all parties that today's call will be recorded. If you have any objections, you may disconnect at this time. I'd now like to turn the call over to your host, Miss Wendy Peebles. Thank you. You may begin whenever you're ready.

Wendy Peebles: Great. Thank you operator. My name is Wendy Peebles. I'm with the Census Bureau Economic Management Division, and it is my pleasure to host the Webinar today along with our trade promotion partners, US Small Business Administration, EXIM Bank and the Commercial Services. We have an informative Webinar planned to discuss finance challenges and solutions available to manufacturers. Well we know that money matters at this time.

Before we begin let's take a look at our agenda. We will have opening remarks by Alexis Aafedt, Director, Trade Facilitation Policy, National Association of Manufacturers. Following her welcome remarks we will have a trade finance expert panel, have some businesses available that we'll discuss some resources that will be available from manufacturers.

And at the end of the Webinar, we will have our Q&A and that will be moderated by Pam Plagens, Advanced Manufacturing Team Leader, US Commercial Service, US Department of Commerce. We ask that you submit your questions to all panelists. We have a team that are monitoring the questions, so you may submit your questions throughout the Webinar. And

following the Webinar today, we will provide you with the presentation, transcript and recording will be emailed to you.

Last but not least, we have an evaluation. We value your feedback, so please complete the evaluation. A link will be provided in the chat. And at this time, we're going to start with our welcome remarks by Alexis Aafedt.

Alexis Aafedt: Great, thank you so much Wendy. Good afternoon everyone. My name is (Ali) Affedt. I am the Director of Transportation policy at the National Association of Manufacturers. And first off I'd just like to say thank you so much to the Census Bureau, EXIM Bank, Small Business Administration, US Commercial Service for putting on not only this great event, but a full series of programs to celebrate manufacturing and highlight the ways that the federal government can support manufacturers in expanding sales to global markets.

The NAM is the largest manufacturing association in the United States, representing 14,000 manufacturers large and small in every industrial sector and in all 50 states along with the over 12 million workers they employ. Manufacturers contribute over 2.4 trillion to the US economy annually and have the largest economic multiplier of any major sector.

Taken alone, manufacturing in the US would be the eighth largest economy in the world. These impressive numbers are supported by international economic growth which has dramatically increased opportunities for manufacturers to sell to the 95% of the global population living outside of the United.

World trade of manufactured goods has more than doubled from 2000 to 2017, and the US share grew from 7.6% to 8.7% in that time frame according to the World Trade Organization. The NAM works to foster an open and

global economy and propel the continued expansion of our vibrant US manufacturing sector and the well-paying jobs that come with it.

While manufacturing exports have increased and manufacturing in the United States have benefited, more growth is possible. That's why the fantastic government resources from the SBA, EXIM and other federal agencies are so important. In many cases, these tools can help get smaller manufacturers on the path to exporting and can help secure sales for US manufacturers that would otherwise not be won without federal government support.

As you may know, the majority of manufacturing firms in the US are small. In 2018 there were over 246,000 firms in manufacturing sector with 98% of these firms having less than 500 employees. And 3/4 of these firms have less than 20 employees.

Small manufacturers are often and rightly focused on the operations of their business and don't have the extra time and resources to explore international markets and financing options on their own. Further, some international sales are simply unattainable without US government backed financing.

And the private financial sector is sometimes unable or unwilling to support a sale or foreign buyer requires a government guarantee. And for those and other reasons the export finance products and services that SBA and EXIM offers manufacturers are critical and enable international growth, which in turn support US jobs in communities throughout our country.

Statistics like these only go so far in encouraging manufacturers to pursue sales in global markets. That's why I'm excited. The audience here today will have the opportunity to hear manufacturing success stories that illustrate the benefits of selling overseas.

Again, thanks so much for the opportunity to be with you all today. And with that let me turn the floor back to you Wendy.

Wendy Peebles: Great. Thank you so much for those opening remarks. What a great way to kick off this Webinar. So next, we are ready to begin with our expert panel to discuss tools and resources to help you to compete globally and close your sales. So at this time, I will turn it over to Dan and Ursula.

Dan Pische: Thank you Wendy. Good afternoon everybody. My name is Dan Pische. I'm the National Director of Trade Finance here at the US Small Business Administration, would just like to echo (Ali)'s comments and thank my colleagues from Census EXIM and Commerce for helping to facilitate this, as well as (Ali)'s remarks from the National Association of Manufacturers.

So I am - I joined the SBA in January. From my previous life, I was a commercial lender based in Chicago, and Miami and I have a long history of working with manufacturers. And what we wanted to do here today when we were planning this event was to really recreate some of the conversations that happen amongst trade professionals who are working directly with manufacturers.

A lot of the businesses that we work with at the Office of International Trade are manufacturers. It's one of our top two industries that are supported with our loan products. But I do recognize that the way that manufacturers access international trade the role that it plays is often pretty different from, say, wholesale distributors. And manufacturing is a very capital intensive industry. So we want to talk about the ways that trade finance works for that segment.

So with that in mind, I'd like to pass off to my co-moderator Ursula and to have her introduce the panel and give a little background on her role at EXIM.

Ursula Wegrzynowicz: Thanks Dan and thanks to (Ali) also for the remarks. You kind of kicked it off already with some of the things that I was going to talk about today. So my name is Ursula Wegrzynowicz and I work for EXIM Bank. I'm based personally in Chicago and I do work on business development with our brokerage community and direct with exporters, which in the case of EXIM Bank in many cases are US manufacturers.

And basically, we're going to share today some of the services that manufacturers can take advantage of in terms of support for growth internationally through EXIM. And then, of course, we'll hear from our panelists as well.

So personally, I just rejoined EXIM Bank just a little bit over a year ago, having started my career here, worked here for in the late 90s to the early 2000s. And then I moved over to a little bit in banking and then mostly working as a broker where we have one of our platinum brokers on today, Bruce from Trade Acceptance Group, also had an opportunity to work with freight forwarders.

And so during my career and worked a lot with manufacturers and kind of talked about what is it, what are the challenges in going internationally? A lot of the companies that we worked with, maybe companies like yourselves where inquiries would come online or at trade shows then orders would come in.

And a lot of the companies I worked with didn't necessarily have the infrastructure in place to deal with international. And it is a little different than dealing with domestic.

And so hopefully you'll take away today a lot of information in terms of resources that are available to you to help you grow, to help you do due diligence on your customers overseas and really hopefully make it just a bit easier to doing business internationally in a more similar way here in the United States.

And so I'm going to take the opportunity now to introduce our other two panelists, Rosy Zarate and Bruce Glaub. Rosy is with BMO Capital Markets and has been with the bank for over 20 years, has a lot of experience in international and I'm really excited to have her here. And we'll hear about some of the stories and manufacturers that she works with.

And then Bruce is with Trade Acceptance Group, which is a specialty trade and political risk brokerage and one of EXIM banks platinum brokers. And to us it just means that they're one of the most active brokers that we work with. And we have a lot of confidence in making sure that they understand that they work with our manufacturers in such a way that there's success for all parties involved. And so why don't Bruce, you take over now and welcome.

Bruce Glaub: Okay. Great. Thank you Ursula. And so just a little bit more about Trade Acceptance Group, over 75% of our customers are in that small and medium sized business category. So that's where we find a really big need for those that are searching and trying to find ways to say yes to opportunities internationally. So that's where we focus a lot of our time and energy. And that will be how - where most of my comments today will be based on those of you that are in that space, that small and medium-sized space.

A little bit more about me, I did help start an international division for a company when I started my career. So I have a feel for the other side of the desk. I was in business development, just about ten years. Then I went to international banking, and that was a little over 15 years.

So I was that letter of credit person. and then about six years ago I joined Trade Acceptance Group as a principal. It's just to get a little bit more into what companies and customers were utilizing more to go overseas in competitive markets. I wanted to deal a little bit more on those products and get out of the banking world of compliance.

I am currently Treasurer for the Wisconsin District Export Council, more on that later, but that's definitely a group that you want to seek out no matter what state you're in. Every state has one. And if you're in the state of Wisconsin I'm looking forward to having conversations with you.

So with just a little bit on credit insurance and kind of the EXIM and private differences or highlights, EXIM is countercyclical, meaning it's utilized quite a bit more so in economic slowdown, so today. We've seen a big pivot to EXIM even with those are those of our customers who are - have - are heavily in the private sector, a little bit more on that to come.

But the reason they do like it is EXIM is and is willing to insure both companies and markets now today that the private sector is pulling away from or has pulled away from for the last year and a half.

What's also nice for those in that small, medium sized category, there's no minimum, whereas private insurance you do have that minimum kind of that initial bit of credit you have to purchase kind of like a credit reports purchase.

And then if you need more later on you purchase some additional. But there's kind of that minimum fee for the private side.

Really with EXIM it's just a deposit that you get back for small businesses when you're done using the policy and say you've graduate to the private sector. It's definitely relatively cost effective for small and medium sized companies especially with the risks that are there when selling overseas and trying to maybe collect or push someone to pay more quickly.

Many private as I said, private policies have for the last year and a half our private customers have used single buyer EXIM so you can use both. And And we are and have been doing that a significant amount over the last year and a half where we couldn't get even a limit in somewhere like Germany. And we were able to get that limit approved through EXIM, you know, on a one, just a one off basis for, you know, as much as a year.

And then as we get back or we get to normal whenever that may be then most likely our customer will move that back into their private policy. But as of now it's, they actually have two policies.

And then lastly, kind of, you know, on that private side, really want to emphasize there's no US content restrictions. You can sell to military allies, less expensive, normally for larger volumes and reporting is quite a bit less onerous. And there are definitely ways on the private side to make things more cost effective.

You can do cancelable versus non-cancelable. You can add a buffer. No claims bonuses. You probably heard about those from Liberty. So there are definitely some ways to make it, you know, reasonable on costs. So costs

shouldn't be this this big impediment. So that that kind of concludes my high level overview and we'll get into more detail as we go along.

Ursula Wegrzynowicz: Fantastic Bruce. Thanks so much. And we'll turn over to Rosy in just a second. But Bruce and Rosy, if you don't mind turning on your cameras so we can see you this afternoon that'd be great. And then Rosy, love to hear from you a little bit more about your background.

I know you've been with BMO for over 20 years now. And just tell us a little bit about the types of customers that you work with in the services that you provide for those that are looking to grow their international sales.

Rosy Zarate: Thanks.

Ursula Wegrzynowicz: Rosy, I'm not sure if your muted but we're not hearing you.

Rosy Zarate: I apologize I was muted.

Ursula Wegrzynowicz: Oh, no worries, thank you.

Rosy Zarate: So, yes, thank you. I've been with BMO the last 20 years and actually the last 15 years I've been with with global trade. And basically in this department, we offer our clients financial solutions. Specifically when it comes to global trade we focus on payment, financing and risk mitigation.

I work with a large number of clients from very small, you know, small companies to very large manufacturing companies and other sectors as well. And I think that one of the biggest challenges that these - that my customers face at the beginning is going into new markets going into, you know, the word international may scare them a little bit. And there there are some things

that we can help them get comfortable with some of the products that we have.

So, you know, the biggest objective is for me to become a trusted advisor and then help them expand into, you know, different countries. Of course, some countries are more challenging than others. So it's basically guiding them through the process from a banking perspective and making sure that they have the financing that they need.

And also very important is their risk mitigation that they would need, especially in some countries and some jurisdictions. That's just what I do at a high level. I'm happy to provide more details, but we can certainly move on to the next person.

Dan Pische: . Thanks Rosy.

Ursula Wegrzynowicz: And so - sorry Dan. Go ahead.

Dan Pische: No it's okay. I, you know, just I had a similar role to both your - you and Bruce in terms of our various capacities in lending. And, you know, one of the things that I just wanted to get Bruce's take on, you know, from an underwriting perspective, we would often look at the need of insurance both as a as a mitigation for foreign credit risk.

So, you know, as a lender, our rights as a creditor did not extend in foreign countries. So the Uniform Commercial Code which governs domestic commercial transactions, allows creditor certain rights, those rights don't extend beyond our borders. So, you know, a lot of times we think of it as a credit underwriting tool as, you know, when I speak to small businesses that, you know, the use of insurance is really something that the bank is imposing

on them. But, you know, I think on the other hand, I really think it's a sales tool.

And if you think about, you know, when I was in banking and Rosy, I'm sure you see the same thing at BMO in terms of the resources available and the level of detail that you go into as part of your underwriting, I really have to ask the question of the manufacturers and, you know, exporters in general. How much underwriting are you doing when you are extending open account terms?

And you know, that's - a lot of these principles that we're highlighting today apply domestically as much as international. So, you know, from a fundamental perspective, we're covering ground that you can put into practice whether you were deciding to export or not right now.

You know, as a lender, I have attorneys and loan documents and liens on assets. But when you think about open account financing, you're effectively extending unsecured financing with, you know, with limited recourse. So there's there's obviously this down side effect as it relates to underwriting, but I also think there - it's a sales tool.

And Bruce, you know, this is a conversation that we have pretty regularly. And what I find interesting about these sort of events and why we went with more of a round table as opposed to say a slide deck oriented to the presentation is really to provide some insight into the conversations that we have as professionals on a regular basis.

But Bruce, can you give us a little background and kind of your view on how trade credit insurance can be used as a sales tool?

Bruce Glaub: Yes and in fact, one of the big differences between domestic and international right now is supply chain and freight sitting at the port. And so what that means is it's taking longer from just to get from A to B. And so who's financing that?

So if your terms, if you really you talk about partnerships or trying to sell more and usually you sell more if you have a partnership network, you're treating them really, really well and as a partner. So you have to find ways to make this more palatable, you know this this current supply chain challenge.

So it can be as simple as going from 30 to 60 days, offering that additional 30 days to pay. And that's going to help your, either your distributor as a partner or even the company on the other end. If it's retail it helps them sell, helps them get it in, you know, in stock, on the floor and actually maybe even out the door and sold.

So when you talk about using terms as a sales tool if you're willing to finance, and normally a US is an incredibly great place to request financing because so many companies, you know, such a mature marketplace and money is so inexpensive in the US compared it to so many places in the world.

So if you have that ability, and again you have a bank that understands what you're doing, and you're going from 60 day terms to 120 day which can be tough.

I mean, for a banker, if they're not your partner to understand where you're doing but you're actually helping that partner or maybe you're winning business over a competitor in a foreign market who isn't using these - this type of tool. You know, they're only offering 30 days because that's all they can handle internally based on what their financial situation might be.

So when you ensure whether you use EXIM or you use private now your bank should be looking at that saying, hey now you have another asset on the books. And all respect to promises to pay from around the world if you have EXIM, you know, on your side with 95% government, you know, backing your bank or should be all over that and really happy to have that type of, you know, asset and borrow against it, or lend against it.

So it's kind of a nice win-win. It allows you to extend at a pretty, at a very reasonable rate. It's cost, your cost of funds and then whatever the premium may be. And end premium is pretty aggressive. So we see that a lot. But right now we're seeing it even more on a supply chain slash partnership issue.

When times are good, you know, two years ago Dan we were talking about, hey, you know, go 180 days. I mean you can, you know, things weren't as tight or as challenging. They use it totally for sales but right now you're using it for both sales and as a partner, being a true partner with your company. I mean with your distribution network overseas.

Ursula Wegrzynowicz: Yes, so there's a great question in the chat from one of our audience members about , "What do you do when you get an order without a letter of credit backing you?" It's a small enterprise, and in this case the example is India, how do you get a credit rating in EXIM, you know, figure out whether or not you should accept that order and wanted to take a step back and talk exactly, you know, about that issue.

So here at EXIM Bank, you know, and I didn't do a great introduction in the beginning here, we're a government agency that basically provides different financing tools, one of them being credit insurance. And companies like Bruce

essentially are brokers looking at different carriers. And in this capacity, we act as one of those carriers and we're the public sector served offering.

And the whole purpose of credit insurance is to exactly deal with that question. You know, you get an order from a, small order from a customer overseas how do you determine whether that customer is creditworthy? And the whole purpose of the insurance is to one, will help you figure out how do we do due diligence and is this company actually creditworthy?

And then if they are, and you're still nervous, the whole purpose of the insurance is to protect you 90% or 95% against non-payment so that you can extend the terms, you can be proactive and aggressive in the payment terms. But at the same time sleep at night and make Rosy happy that you've got your receivables insured and that's now going to be included as collateral when you're trying to borrow.

And so just to answer the question quickly, as far as our standards are concerned, we think we're pretty reasonable, you know, up to \$100,000 we typically can extend credit or insure you extending credit based on just a reference. So does this Indian customer have other vendors in the United States that currently give credit, you know, is somebody giving them \$25,000 in credit and 30 day terms? Can they pay their bills and 45 or 60 days?

If the answer to that is yes we would take a look at that and say, "You know what that \$25,000 reference we can even double it. We can go up to \$50,000 in credit and make and make - and basically stand behind the exporter. And that's, you know, a lot of the questions that we get from exporters is, you know, how do I deal with these kinds of situations?"

You know, we have one of our customers at our annual conference recently talking about how once they started working with us and they entered new markets they were actually using the insurance to be aggressive in offering terms because they wanted to be the first one in with their product in that given market. And it kind of set the standard instead of trying to fight against current brands that were in that particular market they were setting the stage and being the first.

And so I thought that was an interesting kind of take on why offer terms instead of always being on the defense trying to catch up with oh what are, you know, these foreign competitors already giving terms, you know, maybe I should as well. This customer of ours was actually proactive and said, "You know what we're going to be the first one to offer terms.

And our take on that is that, look, the whole purpose of this insurance is exactly that to make you comfortable in extending the terms. But if the credit isn't good we're going to help you determine you know what maybe prepayment is good or maybe you walk away from a deal. The answer isn't always going to be one that you necessarily want to hear but the whole purpose of this is to kind of avoid accidents.

And you know what if something goes sideways and that customer doesn't pay and you had insurance that's what you rely on for us to make that payment. Dan, I'll kick it back to you to talk about sort of how the insurance helps from the underwriting stand point.

Dan Pische: Sure.

Dan Pische: Yes, so and I wanted to set up the insurance first. You know, I kind of highlighted, you know, kind of the downside of the credit underwriting component of insurance how it intersects with it as a sales tool. But, you know, from an underwriting perspective I think it's about helping a business take on a sale and see that sale through successfully.

There's no gross margin that can offset and basically a non-payment event. You know, it's - that's an adage that's applicable from lending. There's no interest rate that justifies the charge off. So - and I think as a business owner, as a manufacturer that, you know, going into every transaction with that in mind is important.

When it comes to underwriting, you know, specifically with trade finance the one thing to keep in mind is that with these credit lines are not viewed as being repaid out of the business as cash flow they're really coming from the cash conversion cycle of a sale so leading from a purchase order to an invoice and eventual payment. So if you think of that cycle the insurance comes in after the payment, the lack of a payment to make the business whole and also is a lender in that case.

And I think, you know, at the SBA, the Office of International Trade, I oversee the export loan programs here and work with a really talented team of export finance managers around the country. We offer products, as do our partners, that EXIM along with, you know, the insurance product that we've highlighted here and Bruce, you know, gave an overview on some of the private sector options, these are all tools in a toolbox.

So if you're a business owner, if you're a manufacturer looking to expand internationally or seeking strategies on how to maybe be more aggressive as you open a new market I would encourage you to connect, you know, both

with myself and my team at the SBA. We have export finance managers again in every market. And we can help make introductions both to local partners as well as national resources and really help businesses evaluate it.

So - and when it comes to a line of credit, Bruce we - Bruce talked about sales trends. So, you know, 60 days being the historical average for international, 90 has really become a lot more common. And you can be aggressive and even offer 120 days. And that's really where EXIM or the private market come in is to help validate the credit worthiness of that buyer.

So what does that mean as an underwriter as a lender? That means that from a credit line perspective maybe using the SBA's Export Working Capital Program or EXIM's Working Capital Guarantee Program that the bank in turn, because of that insurance and because of the guarantee that's presented, the support that's provided by SBA or EXIM in that case allows the bank to be more comfortable with those extended payment terms.

So if you're selling at 120 day terms there's a reasonable expectation that that advance might be outstanding for upwards of 150 days. So, you know, and every manufacturer every business owner in the country and frankly all - everybody is dealing with supply chain disruptions.

So what that means, you know, what are the other additional ways to use a government backed facility like EXIM's or SBAs is that it allows the business to actually take a more strategic view of inventory. So historically speaking, and for those on the line who maybe have had this conversation with their lender, that as a bank we didn't really want to expend too much capital against inventory.

But one of the ways that the SBA and EXIM and programs can support a borrower is to allow the bank to be a little bit more flexible on inventory levels. And, you know, I think we're seeing, you know, some of the shortcomings of just in time inventory. It works great when you can get it.

Obviously, we're all we're adjusting to that now. And the same way that I think businesses look to international trade as a way to diversify their buyer base and ultimately make the business more business stronger I think we're seeing the need to have a diversified supply chains and take a strategic view of inventory.

So I just want to touch on it, you know, a lot of times the underwriting takes place, you know, behind the scenes. The conversations with, you know, are - tend to be more based on sales, and projections, and the outlook and really not so much on the challenges that just really effect all businesses all industries that they're dealing in international.

So, you know, with that in mind I wanted to kind of wrap up on the underwriting side but then also ultimately move over to the second half of the discussion which is really focused on examples.

So that it's one thing for us to talk about advance rates, or loan programs, or, you know, the nuances between credit insurance policies but I think what always helps me understand a situation better, and I think for those on the line, is really just hearing how other manufacturers have put these products, these kind of strategies into work.

So, you know, with that in mind like to, you know, Rosy, I know you talked about your role as an advisor. Being involved in a lot of transactions working for BMO which is an international institution. You know, can you share a

little bit of your history and your examples as they relate to the way that you use trade finance and credit insurance with some of your clients?

Rosy Zarate: Sure. So sometimes, you know, I work very, very, very closely with our ADL team. And for our ADL team it's a lot - they're able to add that foreign accounts receivable if it's insured.

If it's a - if they can - they either do private insurance or of course EXIM insurance is also a choice. The advanced rate with EXIM insurance seems to be a higher than the private insurances because, you know, it's the US government backing it up. You know, so the work in progress also advance rate is also more favorable using EXIM. Not to say that, you know, private insurance doesn't work and they do use private insurance, you know, sometimes.

So, you know, when clients come to me I do work with Bruce, you know, closely and sometimes we go through the exercise of seeing, you know, so which one works for this client? You know, is it going to be, you know, EXIM or is it going to be private? And we just tell the client to advise them of what are their options.

I've also had the opportunity to use the Working Capital Guarantee Program. So, you know, we had a client that wanted to expand into the Middle East but they needed additional working capital. So what we were able to do is that we were able to take, you know, the foreign accounts receivables and with the working capital, you know, basically is the EXIM bank is backing us up as something goes south.

With that we were able to put a line in place for our customers to further expand their sales into the Middle East. And now they were able to use those

foreign accounts receivables, you know, as part, we were able to put them in the borrowing base for the international piece specifically.

So with that, you know, he was able to increase your sales by 30%. And, you know, has been using the program before about, they actually used that program for about four to five years until they eventually became, you know, strong enough that they really didn't need that program anymore but that was what got them through the next step in their growth here with international. Without it they would not have been able to sell to those countries and expand as much as they did.

Dan Pische: Excellent, thank you Rosy. One of the areas that, you know, in the beginning I highlighted that the differences between distributors and manufacturers. And how capital intensive manufacturing is not just from the fixed asset component but also in terms of obligations.

And one of the things that we've seen really more recently, and even predating the pandemic, but is, you know, say a manufacturer who's producing either a larger run or some customized equipment receives a significant deposit but then, you know, is being required to issue what's called an advance payment guarantee which is a standby letter of credit that helps protect the buyer in this case from a non-performance of the manufacturer.

So, you know, while having the deposit on hand is certainly better than not, because you have the cash in hand, the letter credit has to be collateralized. It's a contingent obligation to the bank. So a lot of times what happens is you take that deposit, you stick it in a separate account, collateralize a letter of credit back to your buyer and send it out.

And actually in the process you don't really benefit from the working capital and you do incur some costs. So one of the strategies and really more unique aspects of the Export Working Capital Program at SBA and also Working Capital Guarantee at EXIM is the ability for the institution and also the manufacturer to issue that advance payment guarantee with reduced collateral...

Rosy Zarate: Yes.

Dan Pische: ...as low as 25%.

Rosy Zarate: And thank Dan for bringing that up because that was actually -- I did forget to mention that -- that was one of the - they did, you know, they because the project involves various bid bonds and performance bonds. And they were able to use that program because they were under our working capital.

You know, they were able to use that to have that, you know, that 25% versus 100% requirement for the issuance of these LCs. So that was - thank you for bringing that up because that key to - very key item for this client.

Dan Pische: Yes, absolutely. I think it's one of the most unique uses of our government guaranteed products. And, you know, when you when you can use 75% of that deposit now it really does change both how the manufacturer can bid a project.

The financing cost, the all in financing costs being reduced if you know if you can use more of that deposit it offsets the cost of the letter of credit. It provides more working capital to the business. It provides some additional liquidity to help vendor relationships. I mean really the financials, the

payment strain on the market is felt by everybody and it usually just ripples down the supply chain.

So what I liked about that example -- and I'm glad Rosy had a chance to work with it as well -- it is one of the more unique aspects but really one of the reasons I wanted to bring it up on this call because, you know, for those people who are working on larger projects it's something to consider. And frankly if I was advising a domestic manufacturer who was going to be issuing a significant deposit to somebody I would advise them to protect that deposit with an advance payment guarantee.

So this is just really prudent management both on behalf of the bank and the business in both cases. So I think it's one of the more unique aspects. You know, it's the reason why we have teams at SBA and EXIM who are in the field. We actually work together along with our colleagues at Commerce in what are UEACs, which are US Export Assistance Centers, really spread out throughout the country. Obviously working in more of a virtual environment now which has its benefits.

So if any of the topics we're covering today are of interest whether it's letters of credit, working capital, insurance, you know, obviously we're going to the Q&A at the end, you know, but please reach out, please connect with our teams because this is really what we're here to do. And you know, when we - when it comes to international trade I think it's really good to get lots of different perspectives because there are a number of ways that we can go about that.

So, you know, with that in mind Ursula there's, I'd like to turn it back to you for some of the examples that you're seeing with insurance lately.

Ursula Wegrzynowicz: So what we've seen over the last year -- and I'm sure Bruce can attest to this as well -- is that there's a lot of companies who are coming to us because they have credit insurance in the private sector but maybe they're some of the coverages that are being eliminated on certain customers overseas maybe because, you know, certainly in the airline industry has been tough over the last 18 months.

And so some things that companies don't know, you know, EXIM has sort of been known to provide insurance all on one off as well. So a company comes to us because they can't either get coverage in the private market or maybe they're comfortable and they have established relationships with distributors in many markets overseas but they're entering a new market and they want coverage on, you know, just that particular sale .

That's all something that we can do and there's things that we do in between. So we have a customer up in northern Michigan that manufactures couplings. And they came to us because actually they had a distributor in India. It was a small, you know, relative credit. It was like \$50,000 that they were looking to start out with.

But the company in Michigan, second generation family owned, you know, pretty conservative on giving terms internationally and just weren't comfortable in giving even \$50,000 of credit. But the Indian distributor needed to stock their couplings to be able to deliver locally in market faster.

And so it was really limiting their purchase the Indian company was able to make from the United States if they weren't going to get credit.

But the Michigan company already had credit relationships with what we call like US, you know, household names like multinationals. So they were selling

to JLG, and Caterpillar and other companies that we recognize the names. They were selling to them domestically. They were selling them their overseas locations and they felt comfortable with that.

What they really came to us and said is, "Look we have this one Indian distributor can you help us here?" And so we did. And, you know, we just took a vendor reference like we talked about earlier. That's all we needed.

And then this company in Michigan said, "Oh okay this is really working for this Indian distributor. Well now we have this one over here in Korea, and we have this other one over here in Brazil and have this other one over here. But we don't - we still don't want to talk to you about like these household names the, JLGs of the world in their case that we are comfortable with. Can you just help us out on these newer opportunities?"

And that's something that we definitely can do. So it's not - it's sort of our in between, you know, ensuring everything and ensuring one-off transactions. So that's definitely something that we can do.

The other thing that we've seen is companies coming to us to ensure their letters of credit instead of getting confirmations. And, you know, it's not exactly an apples to apples comparison, but it could be less expensive to insure a letter of credit with us than it is to potentially have it confirmed by a commercial bank.

So there's just lots of different ways that we can help out with the companies, and you know, we're eager to do that. In many cases as risk mitigation, as well as again being aggressive in payment terms. What we're trying to tell companies is that, "Look, before you say no to anything, let's talk first.

And let's figure out, does this company overseas have any vendor references? Do they have - is there a credit report? Can we get comfortable with them?" So I guess our answer would be always like, say, maybe before you say no on credit.

Ursula Wegrzynowicz: Bruce, I don't if you...

Bruce Glaub: Thanks Ursula. Yes?

Ursula Wegrzynowicz: Oh, sorry.

Bruce Glaub: Yes.

Dan Pische: Bruce, you know Ursula I think you need did a great job there with the - some of - kind the objectives of EXIM as it relates to insurance. But Bruce, can you also share some ideas on trade credit insurance, creative uses? Thanks.

Bruce Glaub: Yes. And I echo what Ursula said, say maybe before you say no. And and it all starts with your team. I want to kind of to - for those of you on the call, put together your team. You already have two of the three and I won't - and be - and Urs- and I Rosy and I are happy to help as well.

But start with, you know, SBA, EXIM and the commercial services because they have - commercial services has (DEC). In Wisconsin you're lucky, (DEC) actually has a trade finance group that would answer these questions and not solicit, just give you ways on how to say yes or how to take that maybe and turn it into a yes or say, here's the only way it can get done.

Like if they're not credit worthy, but they have a lot of assets, they may actually issue a letter of credit. There you go. Instead of prepaying, now you

know that you can - you have two choices, prepay or letter of credit, you know, for that transaction so it can help narrow it down.

So what Ursula is saying, we're doing tons of single buyer where customers either have private and the private insurer won't - they just cut the limit or - and cut it in half or reduce it all - or nothing all together Or we have other companies, they're self-insured, meaning they're just going to open an account and they're doing their own due diligence and they just want to insure one company. And so that is - you have an option to do that.

So rather than just say, "No, we won't prepay, can't do anything," explore. And you know, you have the tool to explore. You have the contact information.

And the same thing if you get a contract. Private insurance will insure a contract. So let's say you - they say, "No because there's not a chance I'm issuing a letter of credit." Well, you can insure contract and you won't get - your profit promised that you would get a letter of credit if you ship and ship and do everything properly. But you will get, is your working capital what you put in previous to shipment?

So we have some companies doing that where they're ensuring the contract. And their lenders is happy with that because if something happens in that country or the buyer just says, "No, we're done. We're no longer going to, you know, we're getting out of this contract, these supports could shift," they can actually get of that working capital back in their insurance premium.

So there are again ways to say yes. It doesn't - you don't get profit on that. But if it's a great opportunity and a potential one of many, you may want to say yes and take that risk, but an educated risk that your bank will be much more

happy if you have some sort of protection, your bank and banker as opposed to saying,

"No, there's not a chance. I mean, what if they cancel the order or that's a really tricky market? Why would you do that there?"

And then lastly, don't forget, you know, again, medium term, you're financing more than a year, three, six more than to 60 days if you have capital equipment and it's over - even over 250,000, just light bulb start thinking more than just one year. And the best educator on medium term is EXIM Bank. Because once you understand EXIM Bank and go through some seminars now, you actually have four, well at least three choices we'll say.

Now all of a sudden, if it doesn't fit EXIM Bank, you can maybe go private and you can look at forfeiting which is basically the private version of EXIM Bank. Or if that doesn't work, maybe you want more profit yourself and you're going to insure those promises to pay over three years, but you're going to keep it on your books and keep all the profit yourself.

But the only way you get to those two other options is to understand the process and that's where like I said, build your team, put it together, take the time to understand it because your competitors are. They definitely understand it because they probably have, you know, when you have three year product, what do you do? You sell on price.

So if you're going toe to toe with someone and you know your product, your quality's better, what do you think they're doing? They're saying, "Hey, we're going to either lower the price or we're going to give you three years to pay - to buy it. "That's the only way they're going to win from you because they're not going to - toe to toe, they can't compete on what you're offering, so they have to pivot to something.

So now if you say, "Well, wait a second, we can do all those as well. We can offer you a term, different terms and ways to say yes." Now you're back, you've actually brought the whole question and the whole conversation back to quality. And you've taken all those other objectives off. And your bankers - I mean, everyone's happy, especially you within the company, because now you're selling more, you're in more markets, you're more stable, you're more diversified.

Dan Pische: Thanks Bruce. You know what one - as we kind of wrap up -- we'll do some final comments here in a second one -- one item that I just want to make sure I highlight for the audience is the State Trade Expansion Program, STEP for short. It's administered at the state level. It is an SBA run grant program. It's out of the Office of International Trade where me and my colleagues work.

The one thing I do want to highlight is really how beneficial that is. You know, I've been reading the chart looking at some of the questions and really looking forward to discussing that.

You know, some of the questions really deal with early stage exporters, and I really encourage those companies to look into STEP it's - at their state level. And the reason is it's a very flexible program. It is administered differently in states. So the states kind of create their own program relative to the needs of their community.

But one of the new areas that we are, that we're seeing some states beginning to reimburse for EXIM Bank insurance. So if what Ursula and Bruce and Rosy were discussing on the insurance side is of interest and it's with EXIM. You know, there's a way that you can begin using that product and seek some potential reimbursement from the state.

It also supports, you know, trade missions, which tends to be more what it's commonly thought of but also cybersecurity upgrades, accounting software upgrades, Web site translations, you know, all things that are extremely important when you start to access foreign markets is just to make sure that your materials and your Web site is really ready to take on - to onboard those opportunities as you come into it.

So and we're going to wrap up some questions, turn it over to Q&A. Really what I want to - and this really ties in with what I was saying about STEP it's just to be proactive that that's really my closing note, that, you know, don't wait until you have that opportunity or wait until there's a buyer at your door.

You know, look at options, build out that team, look at STEP, make sure that you have the right banking partner in place. Make sure that you have the right capital structure in place so that when you're out and those opportunities present, you're able to respond.

It's a lot easier to have the loan in place and then take on the opportunity than it is to try and find the opportunity and then simultaneously try to set up a new banking relationship or a new loan structure. So proactive, be proactive.

And I'll turn it over. You know, Bruce, what's your closing comment? And then we'll go around the horn and open up the Q&A.

Bruce Glaub: Well I mentioned it multiple times, but get your team, get your team together, start working on it today and then make sure or if you're in the role of new business development or you can influence those people, get them to ask why if you did lose a business or a quote or a deal, why document and assess?

You can bring that back to us. We can reverse engineer and then we can tell you how to win the next one. So that would be the most critical. Get your team and then get comfortable asking why because maybe you lost that one, but learn from it, and then we can help you get the next one.

Dan Pische: Thanks Bruce. Rosy?

Rosy Zarate: Yes, I think I echo start early. I do like it when my customers come early to me because every situation is going to be different, every country of every jurisdiction will be different. You know, if you had - if I had a client that went into Chile and it went pretty smoothly, but then they wanted to go into the Middle East and that was a little more bumpy just because there was, you know, different countries do things different. You know, different structures have to be put in place for these, you know, those different geographies.

Therefore, again, it's starting early. And you know what I'd like to, I access, you know, a trusted advisor, go through this scenario. Especially, you know, sometimes it when you know, when some of my manufacturers are building a piece of equipment that is custom made, you know, that, you know, it's the, you know, they can't - you know, they're going to be stuck with that if it doesn't - if the transaction doesn't happen.

So, you know, we like to structure the transaction in a way that it will work for the specific with the - for the specific sale. So again, starting early and reaching out to your to your banker or - and the other resource, you know, that you have.

Dan Pische: Thanks. Ursula

Ursula Wegrzynowicz: Yes, so just kind of echo what everyone else already said, get your partners lined up. You need a commercial bank, maybe a community bank, but maybe you need to set up an account also with an international bank to deal with wires or international payments.

You need a local accountant. You need one that has some international knowledge. You know, you get to a certain volume and maybe it makes sense to set up an IC disk. You just always need partners that dip their toes in on the international side and can help you kind of take the next step.

And then there's been some great comments in the chat and questions. You know, every payment term should be on the table for you with - because not one payment term is going to work for every scenario.

But every payment term has its risk and its reward. So cash in advance has risk as well. The risk is that you're losing sales because you're being too conservative. You know, but certainly you're getting your money upfront.

LCs can be difficult if you're selling to distributors and you're doing it on a monthly basis because it's clunky and it's expensive. But if you're making custom equipment, you probably should be using a letter of credit. And same thing with open accounts. Again, let's just stick with custom equipment.

Credit insurance isn't going to protect you until you've actually made a sale, you put something on a ship. If you have a six month lead time and the project is canceled three months since you were building it. Credit insurance isn't the solution for you or not solely 100% term.

So the important part I guess, is to really have all of these partners outside working on your team and educating you and then having a variety of

different resources and payment, you know, as far as payment terms are concerned and looking at, you know, each one how it fits that particular situation.

Dan Pische: Thanks Ursula, I'm checking it looking at the chart here. I've seen at least one question related to specific loan needs. I would encourage you - you can find my contact information. I can get you into the right hands on my team. Also sba.gov/international, you can find your way to the export finance manager in your markets. Connect with me on LinkedIn. I'm also available on there, you know, it's easy to message me.

One of the questions that I saw -- and Rosy, I'll get your take on it as well -- had to do with, you know, if there's an early stage company distributor in this case, are they required to have an extensive sales record before coming to you? What is the likely of getting assistance as a relative startup? So I'll give my take it Rosy, and I'll get yours.

You know, I think being a younger company it doesn't preclude you from accessing capital because as a lender, I was always looking at performance. So it's not that I expect the company to be extremely large when it comes to me, but I think you have to demonstrate a solid operating history because that's ultimately as underwriters. All we can look at is, you know, what the performance that's already taken place.

Projections are always extremely helpful, but also quite rosy most of the time, no pun intended for Rosy. So but I think having that operating history, so if you plan to scale it up, then that's something that that's a great conversation to have with a lender because that's really what lenders are there for is really to help fuel and expand growth.

Lenders aren't investors, so we're not looking to kind of catalyze the early stage of a company. We're really they're looking to kind of help build it up as it goes. But Rosy you know, this is something you deal with all the time at BMO. What advice do you have for early stage companies?

Rosy Zarate: Well, of course, certainly, you know, getting to talk to, you know, your relationship banker. Of course, operating history is very important. You know, a business plan is always required, you know, to tell us what, you know, what the business is about. And, you know, having an idea, where are you? You know, which countries are you going to if in fact your are and expand international.

But again that operating history, the business plan and you know, some projections, you know, could be good and having that that discussion with your with your banker.

Dan Pische: So thanks Rosy. You know, one of the things that - I mean, had to deliver a lot of nos in my day. I think that's just natural to being an underwriter. No, isn't the end of the conversation, though. A lot of, you know, no might be where the answer stands right now. As a as a business, as a borrower, I think you need to educate yourself on what programs are available. Maybe an SBA program can support it.

But also, you know, be receptive to some of the constructive criticism. If it's no right now, is there a point when it becomes yes? Is it about getting the business to a certain level, maybe a certain equity position? Every case is a little bit different, so it's hard to be very generalistic. But have...

Dan Pische: ...that conversation about what you're looking for?

Rosy Zarate: Yes. And Dan I think I'd like to add that to the no. You know, sometimes that your banker may tell you no. But if your banker also works closely, and, you know, I hope that they would work closely with other departments within the bank.

Like in my case, I work with lenders all the time. I'm not a lender myself, but I work with lenders. And they come to me. and they had already said no to this one company. But then we put in the - we said - I said, "Well what about EXIM and have you thought about that?" And you know, we put that component and then no became a yes because now the bank found a way to mitigate some of that risk that they were still uncomfortable with.

So the no can turn yes if you talk to enough people and you know and look at different options.

Dan Pische: Thanks, and Pam I know you're on the line here taking a look at the chat. We were trying to scan, probably jumped the gun a little bit. But if you have any questions that are coming in, please let us know.

Bruce Glaub: I was just going to add to what they're saying. Your advisers should be providing you with an education, not a sales pitch. So that is a - that's what you're looking for, like what Rosy and Dan. You're talking about it's not a - it's not a no. It's here's how we can - can't do it that way, but here's - so you want that.

You want the brainstormers, because then all these - I'm looking at, every question that I'm looking at has a solution and it may not be the exact solution you want. Like, you may have to pay a little bit more, you know, when you're, you know, when, you know, your interest rate may be higher, when you're

newer and a startup. But you know what? You grow fast and then you grow into a bank.

But if you're a startup and you have a product that you can sell internationally, use - pull those receivables in as an asset. So now you can grow more quickly and become more bankable more quickly. So those are the talmost everything here, you know, the competing with the Russians and Chinese, you know, with a warehouse, there are ways to do a warehouse with EXIM. There are ways to do it in the private side there. There are multiple ways.

So that's a more detailed question. But I think definitely ways to solve it. You just have to go to your advisors and find out how those programs work, because EXIM has a really good one potential that could help.

Dan Pische: Thanks Bruce.

Bruce Glaub: Yes.

Pam Plagens: You guys are such an efficient panel, wow. You know what, before we kind of go I throw in a couple of more questions that have come through. I just want to remind everybody that there is a survey that's been noted in the chat and you can complete it after the Webinar, go online. And your comments really help us to craft Webinars and our content and our services frankly, that will meet your needs today and into the near future. We're really trying to stay nimble as things evolve quickly.

So let me just kind of throw out a couple of questions there and give you guys all a chance to like take a small breath. Wow, so much great content.

You know, I think I'm going to put this one towards Dan. "How does a loan - how do the loan needs of a manufacturer compare to those of a distributor?"

Dan Pische: Thanks Pam. The kind of best way that I would explain it is it's kind of a mix of the capital intensive nature of manufacturing, so the need to maintain strong cash flow to repay your term debt, whether it's facility or equipment with a real need to also have a flexible working capital product or structure that can support long production and lead times so that you can ultimately maintain strong cash flow, while also making sure that the line of credit provides ample flexibility to the business.

Pam Plagens: Thank you. You know, and this one goes a little bit more towards Bruce, at least I think it does at the moment. "How does a manufacturer know when to use insurance instead of a letter of credit?"

Bruce Glaub: Yes. And actually, it's been talked about quite a bit. If it's custom, you really want to start looking at your credit first, if they're uninsurable. That may be a great place because they may have a lot of assets in their in their market. But they don't have cash flow or the cash for the LC, or the cash to pay.

So there are definitely ways in spots where a letter of credit makes a lot of sense and it's a phenomenal choice. You know, if it's transactional, you may want to look a little bit more.

And then, you know, I would say the - when terms - when you're getting a more aggressive, you know, trade credit insurance or when you know, when you're looking at more of a partnership, trade credit insurance can be more advantageous because you can really enhance a relationship by not only having great product and great support, but you can also kind of give them access to, you know, local banking, the aggressive local banking environment

that we live in in the US, where the rates are much lower or usually much more aggressive.

So you can kind of extend out and really help a company or get more sales because of it and use it as a competitive advantage. But there's - each company and product kind of has its own and, you know, company too, like their risk tolerance. It's - everyone is unique, so I would say there's no wrong method of payment. You just have to find the right method of payment for you as a company.

Because some - we have a lot of companies we've talked to, and they are just not ready for open account. It's cash in advance or letter of credit. And that's fine. You know, if they can't get there I'm not going to push them there.

Man: Thanks, Bruce.

Pam Plagens: Thank you. You know, I'm not going to - and this question has kind of been answered by everybody, but I feel like it's a good one to kind of wrap it around, you know, to kind of remind folks, if a manufacturer is looking to export, what should they be looking for in a lending partner? Maybe, you know, the top, you know, just hit the high points. And Rosy, I'm going to toss that one to you.

Rosy Zarate: Well, I think, yes, I think it's very important that they get in contact with their banker if they're looking to do this for the first time. Again, I cannot tell you enough that if you need to approach your banker early and tell them about the transaction. And then your banker would be able to tell you what is a good structure, whether it's, you know, to get access to additional working capital or, you know, again, was it a custom made piece of equipment, is it going to be an LC, is it going to be a standby?

What kind of LC is it going to be? And what are the terms and conditions that they should have in that LC? So I think again, and then the jurisdictions. There is just so much that one would need to discuss, you know, the different - what is acceptable in that country? You know, some countries do not like to receive LCs. They want a local guarantee from a local bank.

So just - there is just so much that it's difficult to discuss in a few minutes. But I think that it just - talk to your banker earlier, talk to the resources, talk to Bruce. You know, but I - if you have a banker that you work with, you know, that would be my first (time) and a new banker, if they feel that it's - that this is something for EXIM) or cash, we will get them involved. And this, you know, that's what I do with my clients.

Bruce Glaub: I can add a little bit to that.

Pam Plagens: Oh, go ahead.

Bruce Glaub: So when we're talking to companies that maybe outgrew their bank or are outgrowing their bank just because they, you know, they started with them and now they're really starting to grow internationally, we'll say well you - if you're starting to interview and you're, you know, you know you have this need and it's going to grow, then make sure the bank that your banks are interviewing, if they have some people like Rosy, phenomenal.

But they also need to be - understand (Ex-Im). What is, you know, who are they; what are they? You know, they don't give you this quizzical look when you mention (Ex-Im) Bank. And they also need to understand SBA in their programs. If they don't understand both of those then we probably need to maybe make a pass. Because those are some of the tools you're going to be

using as you grow internationally, and you want a banker that understands them, because, you know, they are incredibly valuable and used quite often.

And rather than you having to educate them on how they work, it'd be phenomenal if they already knew about them and were using them so you can just slot right in.

Pam Plagens: Okay. Then I'm going to ask the question, is there a cheat sheet somewhere that they can go to before these interviews?

Bruce Glaub: Dan has one.

Pam Plagens: Yes.

Dan Pische: I do?

Pam Plagens: I thought that Dan or SBA would probably have it on their Web site or...

Dan Pische: Yes. We've got...

Pam Plagens: ...the Commercial Service and Trade.gov.

Dan Pische: Yes. Trade.gov is a great resource. You know, the Trade Finance Guide, obviously SBA and (Ex-Im)'s respective Web sites have plenty of information. To connect with the export finance managers find your local (Ex-Im) representatives. Those are extremely great starting points and the same is true for commercial service.

So this is great. I just wanted to thank everybody for the discussion. We're running a little bit over and I want to respect everyone's time constraints. So...

Bruce Glaub: I would add one more resource. NASBITE is a really good resource. N-A-S-B-I-T-E.

Pam Plagens: Yes. NASBITE I know is a resource we use as well. Well as we wrap up I just want to thank everybody for joining us. And as I said, the surveys are incredibly important, so just take a few moments to maybe get a cup of coffee and come back and fill it out. And watch for the information on the recording. I keep get questions as we send this out, folks can't, you know, this is 2021 so yes, we do recordings of these events so you can watch them at your leisure or when you really need the information.

And have a great afternoon. We are thrilled that you joined us today. We have an awesome panel and there is so much information they've shared. I think I'm going to listen to the recording just to make sure I've grasped it all. So thank you, everybody. Have a great day.

Dan Pische: Thank you.

Bruce Glaub: Thank you so much.

Pam Pagens: Thank you.

Rosy Zarate: Thank you.

Dan Pische: Thank you. Bye-bye.

Pam Plagens: Bye-bye.

Coordinator: That concludes today's call. Thank you for your participation. You may disconnect at this time.

END